

**From:** David Malpass  
**Sent:** Thursday, November 06, 2008 10:24 AM  
**To:** David Malpass  
**Subject:** Good News Came and Went

There were **a few moments of good news this week**, but we think it will take more to rebuild confidence in the 2009 outlook.

- **The U.S. election went smoothly**, but soon-President Obama won't be inaugurated for over two months. There might be lame-duck legislation from Congress in December, but it won't be pretty. For Keynesians, the heart of the U.S. fiscal stimulus won't come until February or so.
- The **ECB cut interest rates** to 3.25% from 3.75% as expected, but probably won't cut again for a month – that's a long time at 3.25% as Europe's recession deepens.
- **Bank of England cut** to 3% from 4.5%. This was better than our 3.5% expectation, but won't stop a deep UK recession.
- **Three-month dollar LIBOR has come down** to 2.39%.

**However:**

- LIBOR is still high compared to the 1% Fed funds rate and longer-term credit markets are still paralyzed from the Lehman aftermath.
- Even with massive Fed liquidity injections, banks are reluctant to lend as long as new loans might have to be quickly marked down on the books.
- The November 7 employment report will probably show **weakness in hourly earnings and in hours worked**, adding to the gloom from October job losses and a likely rise in unemployment (say 6.3% from 6.1%).
- **Fair-value accounting rules point to further mark-to-market writedowns during year-end bookkeeping when rules on "other-than-temporary" impairments are applied (see Janet Pegg's recent Encima report on this.)**
- **Earnings guidance is just beginning to reflect the post-Lehman freeze in the economy. We expect many more downgrades.**

**In looking for goods news:**

- **We note reservoirs of idle cash around the world waiting to hire, buy equipment and inventory, and buy distressed debt and equities.**
- **We expect the all-out monetary and fiscal stimulus to work.** Over the last six weeks, governments and central banks around the world have pulled out all the stops. We think this will restore confidence in the financial system, in our view the source of most of the economic and market distress. Economic growth and job creation should restart in the first half of 2009, but after a further big decline in coming weeks.

- **Washington might still surprise us with helpful steps** – lower mortgage rates, a few constructive debt purchases through the TARP, an immediate review of mark-to-market issues, or steps to break the harmful interplay between CDS, accounting rules and bond rating agencies.

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